

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2008 AND 2007

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
LAURENS, IOWA  
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LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
LAURENS, IOWA  
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Olsen	Trustee	April, 2009
Robert O. Braesch	Trustee	April, 2011
Richard Main	Trustee	April, 2013

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Laurens Municipal Broadband Communications Utility  
Laurens, Iowa

We have audited the accompanying balance sheets of Laurens Municipal Broadband Communications Utility, a component unit of City of Laurens, as of and for the years ended December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurens Municipal Broadband Communications Utility as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2009, on our consideration of Laurens Municipal Broadband Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 8, and 17 through 18, are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

June 16, 2009

*Hunzelman, Putzier & Co.*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Laurens Municipal Broadband Communications Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2008. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

- The Utility's operating revenues decreased 6%, or \$63,365 from 2007 to 2008.
- The Utility's operating expenses were 7%, or \$77,173, less in 2008 than in 2007.
- The Utility's net assets decreased 1%, or \$4,741, from December 31, 2007 to December 31, 2008.

### **USING THIS ANNUAL REPORT**

Laurens Municipal Broadband Communications Utility is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Laurens Municipal Broadband Communications Utility's financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Utility's financial activities.
- The Balance Sheets present information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- The Statements of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses, and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- The Statements of Cash Flows present the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

## FINANCIAL ANALYSIS OF THE UTILITY

### Statements of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets for 2008 totaled approximately \$658,000. This compares to approximately \$663,000 for 2007. A summary of the Utility's net assets is presented below.

	<u>2008</u>	<u>2007</u>
Current assets	\$ 569,812	\$ 508,821
Capital assets at cost, less accumulated depreciation	<u>307,935</u>	<u>361,663</u>
Total assets	<u>877,747</u>	<u>870,484</u>
Current liabilities	<u>219,617</u>	<u>207,613</u>
Total liabilities	<u>219,617</u>	<u>207,613</u>
Net assets:		
Invested in capital assets, net of related debt	307,935	361,663
 Unrestricted	<u>350,195</u>	<u>301,208</u>
Total net assets	<u>\$ 658,130</u>	<u>\$ 662,871</u>

The largest portion of the Utility's net assets (53%) is the unrestricted net assets that can be used to meet the Utility's obligations as they come due. The remaining net assets (47%) are invested in capital assets (e.g., land, buildings, and equipment), less the related debt.

## FINANCIAL ANALYSIS OF THE UTILITY – (Continued)

### Statements of Revenues, Expenses, and Changes in Net Assets

Operating revenues are received for providing cable, internet, and telephone services to the residents of the City. Operating expenses are expenses paid to operate the Utility. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2008 and 2007, is presented below:

	<u>Changes in Net Assets</u>	
	<u>2008</u>	<u>2007</u>
Operating revenues:		
Cable services	\$ 227,594	\$ 223,673
Telephone services	400,973	468,057
Internet services	155,154	151,823
Other operating revenue	<u>174,536</u>	<u>178,069</u>
Total operating revenue	<u>958,257</u>	<u>1,021,622</u>
Operating expenses:		
Cable and internet services	300,546	298,638
Telephone services	331,988	383,628
Depreciation	100,313	99,783
Customers' accounts expense	2,888	2,233
Administrative and general expense	197,735	215,553
Head end expenses – maintenance	3,332	10,810
Head end expenses - operations	<u>26,196</u>	<u>29,526</u>
Total operating expenses	<u>962,998</u>	<u>1,040,171</u>
Decrease in net assets	(4,741)	(18,549)
Net assets, beginning of year	<u>662,871</u>	<u>681,420</u>
Net assets, end of year	<u>\$ 658,130</u>	<u>\$ 662,871</u>

The Statements of Revenues, Expenses, and Changes in Net Assets reflect a negative year with a decrease in the net assets from 2007 to 2008.

The Utility's operating revenues decreased 6%, or \$63,365, from 2007 to 2008, because of two main issues.

- 1) People are not using long distance with landline telephones. They are using cell phones more and more.
- 2) The government is forcing local telephone companies to reduce our access rates. The result is reduced revenue for the telephone company.

The Utility's operating expenses decreased 7%, or \$77,173, from 2007 to 2008, because of the reduced usage of long distance. Our costs are related to our sales.

### Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows, summarized by operating, noncapital financing, and capital and related financing activities. Cash provided by operating activities includes charges for service reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes the purchase of capital assets.

## **CAPITAL ASSETS**

At December 31, 2008, the Utility had approximately \$308,000 invested in capital assets, net of accumulated depreciation of approximately \$807,000. Depreciation charges totaled \$100,313 for 2008. More detailed information about the Utility's capital assets is presented in Note 3 to the financial statements and in Schedule 1 of the supplementary information.

## **ECONOMIC FACTORS**

The current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.
- Staying competitive with the large nation-wide companies not only with the services offered but also the price of these services.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Laurens Municipal Power and Communications Utility, 272 N. Third Street, Laurens, Iowa.



LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
BALANCE SHEETS  
DECEMBER 31, 2008 AND 2007

Exhibit A

ASSETS

	<u>2008</u>			<u>2007</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>CAPITAL ASSETS</u>				
Utility plant in service	\$ 104,430	\$ 1,010,463	\$ 1,114,893	\$ 1,068,308
Less accumulated depreciation	<u>92,054</u>	<u>714,904</u>	<u>806,958</u>	<u>706,645</u>
Total net utility plant	<u>12,376</u>	<u>295,559</u>	<u>307,935</u>	<u>361,663</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	479,075	(393,317)	85,758	93,457
Accounts receivable (less provision for doubtful accounts of \$10,000 in 2008 and \$7,000 in 2007)	63,108	34,958	98,066	90,244
Due from electric utility	383,684	-	383,684	322,746
Prepaid expenses	<u>1,613</u>	<u>691</u>	<u>2,304</u>	<u>2,374</u>
Total current assets	<u>927,480</u>	<u>(357,668)</u>	<u>569,812</u>	<u>508,821</u>
Total assets	<u>\$ 939,856</u>	<u>\$ (62,109)</u>	<u>\$ 877,747</u>	<u>\$ 870,484</u>

LIABILITIES AND NET ASSETS

<u>CURRENT AND ACCRUED LIABILITIES</u>				
Accounts payable	\$ 103,635	\$ 106,706	\$ 210,341	\$ 198,668
Other current and accrued liabilities	<u>5,996</u>	<u>3,280</u>	<u>9,276</u>	<u>8,945</u>
Total current and accrued liabilities	<u>109,631</u>	<u>109,986</u>	<u>219,617</u>	<u>207,613</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	12,376	295,559	307,935	361,663
Unrestricted	<u>817,849</u>	<u>(467,654)</u>	<u>350,195</u>	<u>301,208</u>
Total net assets	<u>830,225</u>	<u>(172,095)</u>	<u>658,130</u>	<u>662,871</u>
Total liabilities and net assets	<u>\$ 939,856</u>	<u>\$ (62,109)</u>	<u>\$ 877,747</u>	<u>\$ 870,484</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Exhibit B

	<u>2008</u>			<u>2007</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING REVENUES</u>	<u>\$ 542,713</u>	<u>\$ 415,544</u>	<u>\$ 958,257</u>	<u>\$ 1,021,622</u>
<u>OPERATING EXPENSES</u>				
CATV and internet services	-	300,546	300,546	298,638
Telephone services	331,988	-	331,988	383,628
Depreciation and amortization	8,794	91,519	100,313	99,783
Customers' accounts expense	1,888	1,000	2,888	2,233
Administrative and general expense	137,539	60,196	197,735	215,553
Head end expenses - maintenance	912	2,420	3,332	10,810
Head end expenses - operations	9,431	16,765	26,196	29,526
Total operating expenses	<u>490,552</u>	<u>472,446</u>	<u>962,998</u>	<u>1,040,171</u>
Change in net assets	52,161	(56,902)	(4,741)	(18,549)
Net assets, beginning of year	<u>778,064</u>	<u>(115,193)</u>	<u>662,871</u>	<u>681,420</u>
Net assets, end of year	<u>\$ 830,225</u>	<u>\$ (172,095)</u>	<u>\$ 658,130</u>	<u>\$ 662,871</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Exhibit C

	<u>2008</u>			<u>2007</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash received from customers	\$ 540,260	\$ 410,175	\$ 950,435	\$ 1,034,385
Cash paid to suppliers for goods and services	(399,702)	(332,145)	(731,847)	(837,851)
Cash paid to employees for services	(80,967)	(37,797)	(118,764)	(112,778)
Net cash provided by operating activities	<u>59,591</u>	<u>40,233</u>	<u>99,824</u>	<u>83,756</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Advances to electric utility	<u>(60,938)</u>	<u>-</u>	<u>(60,938)</u>	<u>(53,712)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Additions to utility plant	<u>(886)</u>	<u>(45,699)</u>	<u>(46,585)</u>	<u>(54,366)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	<u>(2,233)</u>	<u>(5,466)</u>	<u>(7,699)</u>	<u>(24,322)</u>
Cash and cash equivalents at beginning of year	<u>481,308</u>	<u>(387,851)</u>	<u>93,457</u>	<u>117,779</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 479,075</u>	<u>\$ (393,317)</u>	<u>\$ 85,758</u>	<u>\$ 93,457</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Operating income (loss)	\$ 52,161	\$ (56,902)	\$ (4,741)	\$ (18,549)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:				
Depreciation	8,794	91,519	100,313	99,783
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	(2,453)	(5,369)	(7,822)	12,763
Decrease (increase) in prepaid expenses	49	21	70	(67)
Increase (decrease) in accounts payable	1,046	10,627	11,673	(6,638)
Increase (decrease) in other liabilities	(6)	337	331	(3,536)
Total adjustments	<u>7,430</u>	<u>97,135</u>	<u>104,565</u>	<u>102,305</u>
Net cash provided by operating activities	<u>\$ 59,591</u>	<u>\$ 40,233</u>	<u>\$ 99,824</u>	<u>\$ 83,756</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Laurens Municipal Broadband Communications Utility is a component unit of City of Laurens. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Laurens Municipal Broadband Communications Utility provides telephone, cable, and internet services to consumers in Laurens, Iowa. Sale of local telephone, cable, and internet services are billed on the twentieth of each month for service from the first to the end of the month billed. Sales of long distance telephone service are billed on the twentieth of each month for usage through the fifteenth of the month. An unbilled receivable in the amount of \$1,351 has been recorded (\$2,031 at December 31, 2007) for the period December 15 through December 31. Laurens Municipal Broadband Communications Utility is billed by their telephone, cable, and internet providers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reporting Entity

For financial reporting purposes, Laurens Municipal Broadband Communications Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Laurens Municipal Broadband Communications Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Laurens Municipal Broadband Communications Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2008.

Budgets and Budgetary Accounting - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2008 expenses did not exceed the amount budgeted.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

2. DEPOSITS

The Utility's deposits in banks at December 31, 2008, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397, days but the maturities shall be consistent with the needs and use of the Utility.

The Utility had no investments meeting the disclosure requirements of *Governmental Auditing Standards Board* Statement Number 3, as amended by Statement Number 40.

3. PLANT AND DEPRECIATION PROCEDURES

Listed below are the major classes of plant as of December 31, 2008 and 2007:

	<u>2008</u>			<u>2007</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
Distribution plant	\$ 59,681	\$ 973,308	\$ 1,032,989	\$ 987,670
Other equipment	44,749	37,155	81,904	80,638
Total plant	<u>\$ 104,430</u>	<u>\$ 1,010,463</u>	<u>\$ 1,114,893</u>	<u>\$ 1,068,308</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

4. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% (3.90% through June 30, 2008) of their annual covered salary and the Utility is required to contribute 6.35% (6.05% through June 30, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ending December 31, 2008, 2007, and 2006, were \$6,378, \$6,196, and \$5,408, respectively, equal to the required contributions for each year.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007

5. RISK MANAGEMENT

Laurens Municipal Broadband Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Laurens, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

7. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Laurens Municipal Broadband Communications Utility and the Laurens Municipal Light and Power Plant have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$175,000 on or before the first day of June each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and payments are due June 1 of each year.

## REQUIRED SUPPLEMENTARY INFORMATION



LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL  
YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budgeted Amounts</u>	<u>Actual to Budget Variance</u>
Revenues:			
Use of money and property	\$ 19,260	\$ 13,500	\$ 5,760
Charges for Services	932,533	953,500	(20,967)
Miscellaneous	<u>6,464</u>	<u>107,000</u>	<u>(100,536)</u>
	958,257	1,074,000	(115,743)
Expenses	<u>962,998</u>	<u>1,074,000</u>	<u>(111,002)</u>
Net	(4,741)	-	(4,741)
Net assets, beginning of year	<u>662,871</u>	<u>681,420</u>	<u>(18,549)</u>
Net assets, end of year	<u>\$ 658,130</u>	<u>\$ 681,420</u>	<u>\$ (23,290)</u>

See accompanying independent auditor's report.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
DECEMBER 31, 2008

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Utility's budget was not amended during the year and expenses did not exceed the amount budgeted.

## OTHER SUPPLEMENTARY INFORMATION

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
WESLEY E. STILLE, C.P.A. (RETIRED)  
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Board of Trustees  
Laurens Municipal Broadband Communications Utility  
Laurens, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

June 16, 2009

*Hunzelman, Putzier & Co.*

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>			<u>2007</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<b><u>OPERATING REVENUES</u></b>				
Sale of cable services:				
Basic and digital cable	\$ -	\$ 227,594	\$ 227,594	\$ 223,673
Sale of telephone services:				
Local	189,696	-	189,696	201,048
Long distance	28,458	-	28,458	54,387
Access fees	182,819	-	182,819	212,622
Internet	-	155,154	155,154	151,823
Transport fee credits	90,900	-	90,900	90,900
Special circuits	20,790	-	20,790	20,790
Other	13,158	-	13,158	14,755
USAC - High cost	2,688	-	2,688	1,836
Wireless phone sales/commissions	11,600	-	11,600	22,460
Tower lease fees	-	19,260	19,260	13,680
Converters	-	9,676	9,676	6,400
Miscellaneous	2,604	3,860	6,464	7,248
Total operating revenue	<u>542,713</u>	<u>415,544</u>	<u>958,257</u>	<u>1,021,622</u>
<b><u>OPERATING EXPENSES</u></b>				
Cost of service:				
Basic and digital programming	-	171,753	171,753	166,276
Internet fees	-	38,393	38,393	41,962
Transport fees	20,444	5,400	25,844	28,922
Switching fees	72,270	-	72,270	76,326
Long distance fees	49,818	-	49,818	72,333
Access fees	69,399	-	69,399	81,195
Billing fees	19,758	-	19,758	20,562
Illuminet fees	1,910	-	1,910	3,369
Directory listing fees	5,448	-	5,448	5,094
Wireless fees	2,941	-	2,941	11,227
Joint use fees	90,000	85,000	175,000	175,000
Total cost of service	<u>331,988</u>	<u>300,546</u>	<u>632,534</u>	<u>682,266</u>
Head end system:				
Wages and benefits	6,844	9,062	15,906	15,239
Operating expenses and supplies	2,587	7,703	10,290	14,287
Maintenance and repairs	12	1,666	1,678	9,280
Buildings and grounds	900	754	1,654	1,530
Depreciation	5,968	89,044	95,012	95,013
Total head end system	<u>16,311</u>	<u>108,229</u>	<u>124,540</u>	<u>135,349</u>
Customers' accounts expense:				
Bad debt expense	1,888	1,000	2,888	2,233
Administrative and general expense:				
Administrative and general salaries	74,084	28,269	102,353	99,126
Office supplies and postage	8,398	3,691	12,089	11,741
Audits, legal, and consultation services	13,208	3,016	16,224	28,297
Property insurance	3,306	1,484	4,790	4,936

(Continued)

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>			<u>2007</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING EXPENSES - (Continued)</u>				
Administrative and general expense: (Continued)				
Compensation insurance	\$ 2,962	\$ 1,269	\$ 4,231	\$ 2,927
Employees' group insurance	14,936	6,385	21,321	26,245
Trustees' fees	600	300	900	900
Dues and subscriptions	3,326	1,242	4,568	3,795
Franchise requirement - cost of services to City of Laurens	324	12,603	12,927	12,759
Legal publications	656	281	937	1,536
Advertising and promotion	1,483	614	2,097	3,600
Convention, meeting, and travel expense	264	122	386	627
Depreciation	2,826	2,475	5,301	4,770
Motor vehicle and work equipment expense	2,867	841	3,708	3,217
E911 fees	9,029	-	9,029	9,450
Miscellaneous	<u>2,096</u>	<u>79</u>	<u>2,175</u>	<u>6,397</u>
Total administrative and general expense	<u>140,365</u>	<u>62,671</u>	<u>203,036</u>	<u>220,323</u>
Total operating expense	<u>490,552</u>	<u>472,446</u>	<u>962,998</u>	<u>1,040,171</u>
Operating income (loss)	<u>\$ 52,161</u>	<u>\$ (56,902)</u>	<u>\$ (4,741)</u>	<u>\$ (18,549)</u>

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY**  
**COMMUNICATIONS PLANT**  
**DECEMBER 31, 2008**

Schedule 1

	Utility Plant						Accumulated Depreciation				
	Balance January 1, 2008	Additions	Transfers	Deletions	Balance December 31, 2008	Depreciation Rate	Balance January 1, 2008	Expense	Transfers	Retirements	Balance December 31, 2008
<u>TELEPHONE PLANT</u>											
<u>Distribution System</u>											
Head end equipment	\$ 59,681	\$ -	\$ -	\$ -	\$ 59,681	10.00%	\$ 51,170	\$ 5,968	\$ -	\$ -	\$ 57,138
<u>Other Equipment</u>											
Office furniture and fixtures	16,286	886	-	-	17,172	6.70-20.00	9,380	1,205	-	-	10,585
Transportation equipment	12,759	-	-	-	12,759	20.00	12,759	-	-	-	12,759
Laboratory equipment	14,270	-	-	-	14,270	10.00	9,421	1,603	-	-	11,024
Communication equipment	548	-	-	-	548	10.00	530	18	-	-	548
	<u>43,863</u>	<u>886</u>	<u>-</u>	<u>-</u>	<u>44,749</u>		<u>32,090</u>	<u>2,826</u>	<u>-</u>	<u>-</u>	<u>34,916</u>
Total telephone plant in service	<u>103,544</u>	<u>886</u>	<u>-</u>	<u>-</u>	<u>104,430</u>		<u>83,260</u>	<u>8,794</u>	<u>-</u>	<u>-</u>	<u>92,054</u>
<u>CATV AND INTERNET PLANT</u>											
<u>Distribution System</u>											
Land	8,280	-	-	-	8,280	0.00	-	-	-	-	-
Towers and antennas	142,058	-	-	-	142,058	5.00	63,927	7,103	-	-	71,030
Buildings	7,105	-	-	-	7,105	5.00	3,182	355	-	-	3,537
Tower site equipment	18,545	-	-	-	18,545	10.00	16,492	1,855	-	-	18,347
Head end equipment	690,046	45,319	-	-	735,365	10.00	456,027	74,473	-	-	530,500
Satellite dishes	52,589	-	-	-	52,589	10.00	47,331	5,258	-	-	52,589
Traps and filters	9,366	-	-	-	9,366	20.00	9,366	-	-	-	9,366
	<u>927,989</u>	<u>45,319</u>	<u>-</u>	<u>-</u>	<u>973,308</u>		<u>596,325</u>	<u>89,044</u>	<u>-</u>	<u>-</u>	<u>685,369</u>
<u>Other Equipment</u>											
Office furniture and fixtures	13,667	380	-	-	14,047	6.70-20.00	8,375	995	-	-	9,370
Transportation equipment	8,506	-	-	-	8,506	20.00	8,506	-	-	-	8,506
Laboratory equipment	14,236	-	-	-	14,236	10.00	9,826	1,467	-	-	11,293
Communication equipment	366	-	-	-	366	10.00	353	13	-	-	366
	<u>36,775</u>	<u>380</u>	<u>-</u>	<u>-</u>	<u>37,155</u>		<u>27,060</u>	<u>2,475</u>	<u>-</u>	<u>-</u>	<u>29,535</u>
Total CATV and internet plant in service	<u>964,764</u>	<u>45,699</u>	<u>-</u>	<u>-</u>	<u>1,010,463</u>		<u>623,385</u>	<u>91,519</u>	<u>-</u>	<u>-</u>	<u>714,904</u>
Total Utility Plant	<u>\$ 1,068,308</u>	<u>\$ 46,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,114,893</u>		<u>\$ 706,645</u>	<u>\$ 100,313</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 806,958</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Laurens Municipal Broadband Communications Utility  
Laurens, Iowa

We have audited the accompanying financial statements of Laurens Municipal Broadband Communications Utility, as of and for the year ended December 31, 2008, and have issued our report thereon dated June 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (B) are material weaknesses.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Laurens, Iowa and other parties to whom Laurens Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

June 16, 2009

*Hungelman, Putzier & Co.*

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2008

Part I: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Board of Trustees along with the General Manager will review the financial statements and internal control procedures, in detail, every month. The duties of opening mail, bank deposits, recording receipts and disbursements, bank reconciliations, and payroll preparation will be monitored daily by the General Manager. The Utility will continue to require two signatures on all check disbursements.

Conclusion - Response accepted.

- (B) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional educational courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - The Utility will work to obtain additional training for our staff in order to improve our ability to prepare reliable monthly financial statements. The Utility will continue to work with our auditors on a monthly basis in order to keep our records up to date.

Conclusion - Response accepted.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2008

Part II: Other Findings Related to Statutory Reporting

1. Budget - Utility expenditures during the year ended December 31, 2008, did not exceed the amounts budgeted.
2. Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
4. Business Transactions - We noted no business transactions between the Utility and Utility officials or employees.
5. Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
7. Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
8. Telecommunications Services - No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.